

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 FEA-01 INT-05 OES-03 PA-01 PRS-01 USIA-06 IO-10

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R 070200Z FEB 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8257

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 0817

HONG KONG FOR REGFINATT

REF: CERP

E.O. 11652: GDS

TAGS: EFIN, KS

SUBJECT: KOREA'S NET FOREIGN ASSETS BECOME NEGATIVE

SUMMARY: WHILE ABLE TO MAINTAIN ITS GROSS EXCHANGE RESERVES IN 1974 THROUGH HEAVY BORROWING, KOREA'S NET FOREIGN ASSETS DECLINED BY DOLS 1.1 BILLION TO A NEGATIVE DOLS 150 MILLION POSITION AT THE END OF DECEMBER. IF LONG-TERM MONETARY LIABILITIES ARE EXCLUDED FROM THE ACCOUNTING, THE NET SHORT-TERM POSITION AT THE END OF 1974 WAS A POSITIVE DOLS 300 MILLION, DOWN DOLS 760 MILLION FOR THE YEAR. KOREA'S NET FOREIGN ASSETS WILL DECLINE FURTHER IN 1975 AND ITS GROWING NEGATIVE ASSET POSITION COULD POSE A PROBLEM IN SECURING THE LARGER VOLUME OF LONG-TERM FINANCING NEEDED IN 1975 TO FINANCE ANOTHER VERY LARGE BOP DEFICIT. END SUMMARY.

1. ALTHOUGH THE ROKG WAS ABLE TO MAINTAIN GROSS FOREIGN EXCHANGE
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RESERVES AT AROUND DOLS 1.0 BILLION DURING 1974, NET FOREIGN ASSETS

DECLINED BY NEARLY DOLS 1.1 BILLION TO A MINUS DOLS 150 MILLION POSITION ON DEC. 31. THIS STEEP DECLINE REFLECTED THE NEED TO FINANCE MOST OF KOREA'S GREATLY INCREASED BOP DEFICIT (TENTATIVELY ESTIMATED AT DOLS 1.8 BILLION ON CURRENT ACCOUNT) THROUGH BANK BORROWING, CHIEFLY IN THE FORM OF SHORT-TERM IMPORT REFINANCING CREDITS. HOWEVER, GROSS RESERVES WERE ALSO MAINTAINED BY A DOLS 335 MILLION INCREASE IN LONG-TERM BANK-TO-BANK LOANS AND IMF CREDITS. IF THESE LONG-TERM MONETARY LIABILITIES ARE EXCLUDED, NET SHORT-TERM FOREIGN ASSETS WERE DOLS 296.5 MILLION AT THE END OF DECEMBER, DOWN DOLS 760 MILLION FOR THE YEAR.

2. END OF YEAR FIGURES IN MILLIONS OF DOLLARS WERE:

	1973	1974	CHANGE
1. GROSS FX RESERVES	1034.2	1049.3	15.1
2. OTHER ASSETS	233.9	73.8	-160.1
3. TOTAL ASSETS	1268.1	1123.1	-145.0
4. SHORT-TERM LIABILITIES	211.8	826.6	614.8
5. LONG-TERM LIABILITIES	111.1	446.2	335.1
6. TOTAL LIABILITIES	322.9	1272.2	949.9
7. NET FOREIGN ASSETS (3-6)	945.2	-149.7	-1094.9
8. NET SHORT-TERM (3-4)	1056.3	296.5	-759.8

3. COMMENTS BY LINES: AFTER FALLING TO DOLS 970 MILLION BY THE END OF MARCH, GROSS FX RESERVES WERE HELD AT DOLS 975-995 MILLION THROUGH NOVEMBER. THEY WERE THEN INCREASED ABOUT DOLS 75 MILLION IN DECEMBER (THROUGH SHORT-AND LONG-TERM BORROWING) TO SHOW THE DESIRED SMALL INCREASE FOR THE YEAR. THERE IS ALSO EVIDENCE THAT SUCH QTE WINDOW-DRESSING UNQTE HAS BEEN APPLIED TO OTHER END-OF-MONTH FIGURES, SINCE FOR SEVERAL MONTHS INTRA-MONTH RESERVE FIGURES MENTIONED BY OFFICIALS HAVE BEEN ABOUT DOLS 100 MILLION BELOW END-OF-MONTH FIGURES. GROSS RESERVES AT THE END OF 1974 WERE EQUAL TO 1.7 MONTHS OF 1974 IMPORTS OF GOODS AND SERVICES, OR 1.45 MONTHS OF ESTIMATED 1975 IMPORTS.

4. OTHER ASSETS IN THE FORM OF COMMERCIAL BANK HOLDINGS, SDR'S AND THE IMF GOLD TRANCHE WERE DRAWN DOWN HEAVILY TO HELP MAINTAIN GROSS RESERVES. KOREA'S GOLD HOLDINGS OF ABOUT DOLS 4.6 MILLION AT THE OFFICIAL RATE ARE INCLUDED IN OTHER ASSETS AND WERE CONFIDENTIAL

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NEARLY CONSTANT DURING 1974.

5. SHORT-TERM LIABILITIES CONSIST MAINLY OF FEME FINANCING CREDITS, WHICH EQUALED DOLS 650 MILLION AT THE END OF THE YEAR, UP DOLS 546. MILLION.

6. LONG-TERM MONETARY LIABILITIES AT THE END OF 1974 CONSISTED OF: DOLS 314 MILLION IN BANK-TO-BANK LOANS (INCLUDING A DOLS 100

MILLION DECEMBER QTE BRIDGE UNQTE LOAN FROM U.S. BANKS AS AN ADVANCE ON THE DOLS 200 MILLION SYNDICATED LOAN EXPECTED TO BE COMPLETED SHORTLY); DOLS 108 MILLION FROM THE IMF OIL FACILITY; AND THE DOLS 24 MILLION IMF STANDBY CREDIT DRAWN IN DECEMBER. THE DOLS 335 MILLION INCREASE IN SUCH BORROWING IN 1974 HELPED MAINTAIN GROSS RESERVES WITHOUT BENEFITING NET FOREIGN ASSETS. EXCLUSION OF THESE LONG-TERM DEBTS (OF 3 YEARS OR LONGER) IN LINE 8 ABOVE GIVES A BETTER INDICATION OF THE SHORT-TERM FX POSITION. (FOREIGN MONETARY LIABILITIES EXCLUDE BORROWINGS AND BOND SALES BY THE KOREA DEVELOPMENT BANK, WHICH IS NOT A DEPOSIT MONEY BANK, AND FOREIGN BANK LOANS TO KOREAN CORPORATIONS, SO THE NORMAL DISTINCTION IS SOMEWHAT ARBITRARY IN ANY CASE.) FOR 1975 THE GOVT EXPECTS (A) THE REMAINING DOLS 100 MILLION FROM THE SYNDICATED U.S. LOAN LESS DOLS 36 MILLION IN BANK LOAN REPAYMENTS PLUS POSSIBLE LOANS FROM OPEC COUNTRIES, AND (B) DOLS 100-200 MILLION FROM THE IMF OIL FACILITY.

7. NO DOLLAR FIGURE FOR NET FOREIGN ASSETS IS PUBLISHED. THE PUBLISHED WON FIGURES CANNOT BE CONVERTED DUE TO THE USE OF VARIOUS EXCHANGE RATES FOR PAST ENTRIES. AS NET ASSETS HAVE DECLINED, THE ROKG HAS BECOME INCREASINGLY SENSITIVE ABOUT THE AMOUNTS, WHICH ARE GIVEN REGULARLY ONLY TO INTERNATIONAL ORGANIZATIONS AND THE USG ON A PRIVILEGED BASIS. (IMPORTANT FOREIGN LENDERS ARE GIVEN SOME INFORMATION UPON REQUEST.) FORMAL USE OF THE SHORT-TERM POSITION (LINE 8) IN ITS PRESENTATIONS IS UNDER CONSIDERATION BY THE GOVERNMENT.

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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 0817

8. COMMENT: ABOUT HALF OF THE 1974 LOSS IN BOTH TOTAL AND SHORT-TERM FOREIGN ASSETS OCCURRED IN THE FOURTH QUARTER, PARTLY DUE TO SPECULATION PRIOR TO THE DEC. 7 DEVALUATION. WITH EXPORTS FALLING AND IMPORTS STILL RISING, HOWEVER, A FURTHER SHARP DECLINE APPEARS LIKELY FOR THE FIRST QUARTER. WE UNDERSTAND THAT THE PROBLEM OF MAINTAINING GROSS RESERVES RECEIVES ALMOST DAILY HIGH-LEVEL ATTENTION IN THE MINISTRY OF FINANCE. SINCE THE POSSIBILITIES FOR FURTHER INCREASES IN REFINANCING CREDITS WILL BE LIMITED IN 1975, INCREASED RELIANCE WILL HAVE TO BE PLACED ON LONG-TERM BANK, OFFICIAL AND COMMERCIAL BORROWING.

9. WITH A DEBT-SERVICE RATIO OF ONLY 12 PERCENT IN 1974, KOREA PRESUMABLY HAS THE ABILITY TO SERVICE LARGE ADDITIONAL LONG-TERM BORROWINGS. HOWEVER, U.S. BANKERS, IN A GREATLY INCREASED NUMBER OF VISITS TO KOREA IN THE PAST 6 MONTHS, HAVE EXPRESSED CONCERN OVER THEIR TOTAL EXPOSURE TO KOREA AND HAVE INDICATED THAT LARGE FURTHER INCREASES ARE UNLIKELY. IN THIS CONNECTION, THEY HAVE EXPRESSED PRIME INTEREST IN KOREA'S ABILITY TO MAINTAIN ITS GROSS RESERVE FIGURE AND SO FAR HAVE NOT BEEN PARTICULARLY ALARMED BY INDICATIONS OF THE LARGE DECLINE IN NET FOREIGN ASSETS. HOWEVER, AS NET FOREIGN ASSETS CONTINUE TO FALL IN 1975 AND AS KOREA'S
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NEGATIVE ASSET POSITION BECOMES MORE WIDELY KNOWN, IT COULD JEOPARDIZE KOREA'S CREDITWORTHINESS IN TIGHT FOREIGN CAPITAL MARKETS.

10. FURTHER COMMENTS ON THE 1975 BOP OUTLOOK WILL BE SENT SEPTTEL.
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